Dear Mr. Kenny, Mr. Vijay, and Mr. CEO,

I would like to submit new loan application for USD70K for your endorsement.

**Request**

1. TL1 of USD50K with interest rate at 8% p.a. to reimburse the purchased land.
2. TL2 of KHR80M with interest rate at 8% p.a. to partially finance the construction cost of 3-Storey building with roof on the subject property to be charged with us.

**Deviation**

1. To seek approval to accept construction permit with approval at Sangkat Level.
2. To seek approval for variance of building area after issuing formal valuation subject to total value of not less than USD235.9K after 100% completion of construction.

**Summary**

* The joint applicants Mr. Touch Ngorn (Age: 27) and Mdm. Touch Sreymom (Age: 45) are related as son and mother. Presently, Mr. Touch Ngorn running the business of phone shop known as Ngorn Sreng Phone Shop which official register with Phnom Penh Department of Commerce. Moreover, Mdm. Touch Sreymom has additional revenue from house rental.
* The applicants have proposed MGN bank for purposely to construct 3 storey flat house with the total breakdown cost of USD88.3K (disclosed by applicant).
* As per cross check the cost of construction by our 2 panels CPL and ARC with the cost of USD84.5K and USD94.5K respectively. Thus, the cost breakdown furnished by the applicants is reasonable and acceptable which is in the average of these 2 panels.
* Presently, the applicants have 2 main income from phone shop and house rental. Moreover, after the 3 storey flat house completely constructed it will be occupied as room rental with the total 60 rooms.
* As per furnished sale invoice (phone shop) for the last 5 months (Jan - May) the average monthly revenue amount of USD31,295 equal to 100% of the monthly sale revenue reported in income statemen (USD 31,295).
* As per furnished rental contract, the rental duration is up to 7 Years (16-Feb-17 to 15-Feb-24) with the agreed fee of USD500 for the first 2 year and will increase to USD 600 for the third year onward. Due to the rental house is owned by Mdm. Touch Chhayly and Mdm. Touch Sreymom. Thus, the BU shared only 50% (USD 300) for revenue calculation.
* The current DSR is strong at 2.02x for 2019 (Jan – May) and DSR will be up to 2.42x in 2020 on additional income from room rental.

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| --- | --- | --- |
| **Revenue (USD)** | **2019 (Jan - May)** | **2020 (Jan-Dec)**  **Projection** |
| **Average Monthly Income** | **1,716.93** | **2,052.47** |
| **Bank Commitment** |  |  |
| TL1 of USD50K at M.G.N | 606.64 | 606.64 |
| TL2 of KHR80M at M.G.N | 242.66 | 242.66 |
| **Total Bank Commitment** | **849.3** | **849.3** |
| **DSR** | **2.02x** | **2.42x** |

* However, if their net income drops down 30% from the current year, the sensitized DSR shall be acceptable at 1.69x.
* The property to be charged to the bank is a vacant land to be constructed as a 3 storey flat house. This property is classified as a Residential Grade B which can offer 50% for vacant land and 70% for building.
* The proposed facilities total amount of USD70K will derived the Loan to Value (LTV) equal to 36.14% when the building is 100%completed.

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| **No.** | **Property Type** | **Address** | **OMV (USD)**  **(Current)** | **OMV (USD)**  **(Future)** | **Max LTV (USD) 50%** | **Max LTV (USD)**  **70%** |
| 1 | Vacant Land | S/K Steung Meanchey, Khan Meanchey, PP. | **109.2K** | **193.68K** | **54.6K** | **135.58K** |

* As per CBC check on 29 July 2019, there’s no borrowings with any other bank and no adversities noted.

**Risk and Mitigation**

* Business Premise is Rental. In the even the lessor​ terminates the rental agreement before/after maturity date. This is, however, mitigated by our sensitized scenario where, net income drops down 30%, DRS would still acceptable at 1.69x.
* The construction approval is authorized only at Commune/Sangkat Level by the way it should approved from District/Khan. BU, however, mitigated the risk by the release of TL2 is at the KHR80M upon 100% completion of construction, when the risk of demolition by the authority is very minimal.

**Recommendation from CAU**

* Credit Risk Assessment Unit (CAU) would like to recommend the proposed loan for management approval as per terms and conditions stated in BU’s Credit Proposal.

Please find the Credit Proposal, Assessment Memo, and Security as per attachment.